

PENTAGON RENOVATION PROGRAM


PROGRAM MANAGER'S POLICY

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AWARD FEE GUIDE

This guide discusses the process and procedures to be used on Pentagon Renovation Program contracts with award fee provisions.


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PENTAGON RENOVATION PROGRAM

AWARD FEE GUIDE

(Change to reflect final revisions!)

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Chapter 1 GENERAL

1.1 - Types of Contracts

The two broad categories of contract types available for use in Government contracting are **fixed-price** and **cost-reimbursement**. The objective of selecting a contract type is to reasonably allocate performance risk between the contractor and Government while providing the contractor an adequate incentive to perform efficiently and economically. Contracting and Project Managers should select the contract type that places the appropriate level of responsibility on the contractor to successfully perform, commensurate with the technical and cost uncertainties. Contract types range from **Firm-Fixed-Price** (FFP), which places maximum risk on the contractor and minimum risk and administrative burden on the Government, to **Cost-Plus-Fixed-Fee** (CPFF), which places minimum risk on the contractor and maximum risk on the Government.

Contracting methods have been developed that attempt to refine the traditional risk allocation approaches. These methods result in shared risk arrangements. They are normally used when risks are moderate. The primary methods used to modify risk allocation are found in **incentive contracts**. Other methods include **economic price adjustment** provisions and **level-of-effort** contracts.

The type of contract selected should be based on an objective assessment of all the conditions involved in the acquisition. Selecting the proper contract type requires the exercise of sound judgment. Contract types are discussed in Part 16 of the Federal Acquisition Regulation (FAR) and its Supplements. On the Pentagon Renovation Program (PENREN), where the primary delivery method has become the design-build contract, the preferred contract type is the Fixed-Price-Incentive contract with an Award Fee. However, in selecting contract types for contracts with small businesses, consideration should be given to the potential inability of their accounting systems to manage cost type or fixed-price-incentive contracts.

1.2 - Award Fee Contracts

The goal of award fee contracting is to motivate contractor performance that is desirable to the Government. This approach is especially effective in motivating behavior, such as customer responsiveness, that is difficult to quantify or measure.

Award fees may be used in either fixed-price or cost-reimbursement contracts and they may be used in combination with **incentive fees** (DFARS 216.470). PENREN's innovative method of using an award fee in conjunction

with a conditional incentive fee sharing arrangement has proven to be an unqualified success on construction contracts. In this hybrid approach the contractor must attain minimum subjectively-evaluated award fee performance levels to obtain a share of any incentive cost savings that may accrue for cost under-runs. However, in any award fee contract, the award fee plan must be tailored to meet the needs of the particular acquisition.

Award-fee contracts give the Government the flexibility to judgmentally evaluate the contractor's performance levels and, if necessary, institute mid-contract changes in the evaluation criteria to reflect changes in Government emphasis. Including an award fee arrangement in a contract initiates a process that rewards superior performance, provides the contractor an incentive to improve poor or mediocre performance, and records the Government's assessment of the contractor's progress.

1.3 – Hybrid Contracts

When some portions of a contract effort are suited to objective/quantitative measurements and others are not, a hybrid or combined contract type may be used. With different levels of uncertainty and risk, different contract fee provisions may be appropriate within the same contract. This has become the preferred method at PENREN - to blend a cost control incentive, using a share-ratio, with a performance quality incentive. In this case, the result is a Fixed-Price-Incentive contract with an Award Fee.

Use **caution** in establishing hybrid contracts to ensure that the award fee incentives do not become a **disincentive** to the realization of the incentive fee objectives. In other words, you do not want the contractor to achieve the highest rating level in one performance category (e.g., cost control) to the detriment of other contract requirements (e.g., design or construction quality). PENREN incentive fee contract provisions establish an **award fee threshold** (e.g., the attainment of a minimum award-fee-evaluation) for the realization of incentive fees. **For example**, a design-build construction contractor will be required to attain a **minimum** average of an Excellent award fee rating over the term of the contract to obtain **any** incentive fee for project cost under-runs. This conditional approach to the cost sharing incentive is consistent with the aims of an award fee contract and highly effective in motivating contractor performance.

Chapter 2 AWARD FEE POOL

The award fee pool is a designated amount in an award fee contract that a contractor may be awarded pursuant to the provision of the contract's award fee plan. In some contracts, e.g., task order or delivery order contracts, there may be more than one award fee pool. The term "award fee pool" may be used

by some to refer to the sum of all award fees available on a contract. In PENREN we prefer to use the term "maximum contract fee" for this purpose.

Since the available **award fee** during the evaluation period must be earned, **the contractor begins each evaluation period with 0% of the available award fee and works up to the earned award fee amount for each evaluation period.** Contractors do not begin with 100% of the available award fee and have deductions taken to arrive at the award fee for each period.

Some agencies (e.g., NASA) use provisional interim award fees when the final outcome of performance cannot be determined until contract completion. Such arrangements are not used on PENREN contracts.

2.1 - Regulatory Limits

Maximum contract fee limitations were narrowed by Federal Acquisition Circular 97-02, September 30, 1997. The current regulatory limits are listed below and, except for some Architect & Engineering (A&E) contracts, apply only to CPFF awards. Contracting Officers are, therefore, permitted to negotiate any maximum fee necessary, under non-CPFF and some A&E award fee contracts, to accomplish the purpose of the contract. The following regulatory limitations still apply [see FAR 15.404-4(c)(4)]:

Contract Type	Regulatory Limitation
Experimental, Developmental, or Research CPFF Contracts	15% of estimated cost, excluding fee
Other CPFF Contracts	10% of estimated cost, excluding fee
A&E Contracts for Public Works or Utilities	6% of estimated cost of construction, excluding fees

2.2 - Base Fee

Base fee is the fixed portion of the total contract fee in a **CPAF contract**. It is only authorized on CPAF contracts. Base Fee is not considered part of an award fee pool and is paid on a regular basis without regard to contractor performance. **Contractors are not allowed to propose a base fee, or a target profit, on PENREN contracts or modifications.** This allows PENREN to control the entire amount of available fee and focuses contractor attention on the award fee evaluation criteria.

2.3 - Establishing the Award Fee Pool

Establishing the amount of the **award fee pool** is critical. Fees must truly and adequately motivate the desired contractor behavior. Fees should not

be excessive, but an inadequate award fee pool does not provide the motivational incentive that this type of contract must stimulate to be successful. The fact that PENREN contracts do not allow base fee or target profit also emphasizes the need for adequate award fee pools.

There is no single approach required by the FAR for establishing an award fee pool. However, the factors listed in Section 2.4 below must be evaluated where they are applicable. The overall approach should be logically developed and reflect the complexity of the contract effort. DFARS 216.405-2 prohibits the use of Weighted Guidelines (WGL) to establish base fee or award fee. A methodology for establishing an award fee pool is discussed in Section 2.4 below. The amount of available award fee is established as part of your acquisition strategy. In FPAF contracts, the award fee shall not apply to cost reimbursable items (e.g., travel and material).

2.4 - Methodology

The following is a three-step approach for determining the award fee pool.

1. Develop an estimated contract cost. Determine the estimated cost for the work required within the scope of the contract. The cost estimate should be thoroughly documented.
2. Consider all factors pertinent to award fee pool determination. When establishing the award fee pool the factors described in FAR 15.404-4(d), must be considered when applicable to the nature of the award under consideration. These factors are: contractor effort required, contract cost risks, contractor support for federal socioeconomic programs, contractor capital investments, contractor cost control and other past accomplishments, and independent contractor development activities. Other relevant factors may be added to the evaluation. The award fee pool must be sufficient to compensate the contractor for the highest level of performance.
3. Ensure regulatory fee limitations are not exceeded. The final step for determining the award fee pool is to ensure the total fee available under the contract (not just the award fee) does not exceed regulatory fee limitations (See 2.1, Regulatory Limits). These limits now only apply to certain CPFF contracts and A&E contracts for public works and utilities. The maximum-available-fee under your contract must not exceed, but need not equate to, any applicable regulatory maximum.

2.5 - Allocation of the Award Fee Pool

After the amount of the award fee pool is established, allocate it among the various award fee **evaluation periods**. The distribution of the award fee pool depends on the acquisition strategy and type of contract. In PENREN construction contracts, for example, the percentage of work completed on

progress payments often serves as the basis for award fee allocations (see Annex B). The award fee allocated to each evaluation period is the maximum amount that can be earned during that period. The available award fee may be allocated equally among the evaluation periods if the risks and type of work are similar throughout the evaluation periods. If there are greater risks or critical milestones during specific evaluation periods, a larger portion may be distributed to those periods. This places greater emphasis on certain evaluation periods.

Additional award fee generated from contract modifications may be added to the evaluation periods where the modification's associated costs will be incurred, added to the last performance evaluation period, or distributed in some other equitable manner.

Do not front end load award fee distributions. Evaluation allocations should reflect the actual work or risk anticipated for each period. For example, if no punch list or warranty work will take place before period three, funds should not be allocated in periods one and two for such work. This type of misallocation can undermine the **integrity** of the process. Award fee may be allocated to periods after the contract is complete to motivate and evaluate successful completion of punch list items or warranty work.

Reallocation is the process by which the Government moves a portion of the available award fee from one evaluation period to another due to such things as Government-caused delays, special emphasis needs, or changes to the work requirements. **Reallocation is not normally associated with the contractor's performance.** Reallocation may be done unilaterally if projected before the start of the effected award fee evaluation period. In such cases, the Award Fee Determination Official (AFDO) **must** give the contractor prior written notice of the reallocation in accordance with the terms of the Award Fee Plan, normally at least ten (10) or fifteen (15) working days prior to the beginning of the applicable evaluation period. If Award Fee Plan requirements are met, award fee funds may also be reallocated across all the remaining award fee periods based upon a reconsideration of the risks involved in the work or other factors (see Section VIII, Annex B). **Within** an award fee evaluation period, reallocation can only be done with the **mutual agreement** of the Government and the contractor.

2.6 - Rollover

Rollover is the process of moving **unearned** award fee from one evaluation period to a subsequent period, thereby providing the contractor an additional opportunity to earn that award fee amount. It will take place solely at the discretion of the AFDO. Rollover will not normally occur in service contracts since the service was either performed during the evaluation period or not. The contractor must not expect unearned fee to be automatically used in some later evaluation period. There are, however, instances when it is advantageous to the Government to add additional incentives for improved contractor performance to

subsequent evaluation periods. A careful analysis must precede any reallocation or rollover.

Chapter 3 FUNDING AWARD FEES

Award fee pools are budgeted as part of the total contract budget. When planning and budgeting for award fees, you must adhere to bona fide need and funding propriety (or purpose) rules. The **bona fide need rule**, 31 U.S.C. 1502(a), provides that: "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title." The **propriety of funds rule**, 31 U.S.C. 1301(a), says, "appropriations shall be applied only to the objects for which the appropriations were made."

An award fee requirement is a bona fide need of the same year and appropriation that financed the related work effort. From the propriety of funds standpoint, award fees are inherently inseparable from the work with which they are associated.

3.1 - Commitment

Award fee funds should be committed by the beginning of the award fee evaluation period to cover future obligations. The Contracting Officer (CO) and Resource Manager are responsible to **ensure that the commitment cites the same fiscal year and appropriation as the related effort.**

3.2 - Obligation and Payment

At PENREN, potential award fee amounts are obligated at the time of contract award up to the maximum award fee applicable to the awarded contract's value. For work added to a contract, or for the exercise of contract options that fall under an award fee arrangement, potential award fee funds are normally obligated on the same modification that adds the new work or exercises the option.

The Award Fee Determination Official (AFDO) will issue a **fee determination letter** at the end of each award fee evaluation period. The fee earned for the period will be stated in the letter, as will the amount of any fee rolled forward or removed from the Award Fee Pool. The CO will endorse the fee determination letter and forward it to the contractor. The contractor may bill for the earned award fee amount immediately upon receipt of the CO-endorsed fee determination letter. Contracts will stipulate that contractors may only bill for earned award fee in accordance with the terms of fee determination letters.

Award fee determinations should be made before funds have expired to avoid special consideration requirements.

3.3 - De-commitment

Once the fee determination letter authorizing payment of the earned award fee is issued, any excess funds should be de-obligated and/or de-committed in a timely manner. Unearned fee rolled forward is held in commitment status.

Chapter 4 ROLES AND RESPONSIBILITIES

Award fee evaluations are inherently judgmental. Therefore, it is especially important that all personnel involved in award fee contracting understand the overall process and the specific roles and responsibilities of the evaluation team. The evaluation team includes the **Award Fee Determination Official (AFDO)**, **Award Fee Evaluation Board (AFEB)**, and **Performance Monitors**. The AFDO makes the final decision regarding the amount of award fee earned during the evaluation period and ensures award fee process integrity is maintained. The AFEB provides an objective, impartial view of contractor performance. Performance Monitors deal with the contractor on a day-to-day basis. Monitors observe, evaluate, and assess contractor performance in designated areas. Performance Monitors prepare reports and recommendations for the AFEB as required in the **Award Fee Plan** (see Annex B).

Award fee contracting must follow a disciplined approach to be successful. Documentation ensures the **integrity** of the evaluation process. This documentation should demonstrate that the process set forth in the award fee plan has been followed. Proper documentation also shows that rating recommendations and final AFDO decisions have been based on actual performance and evaluated according the award fee plan. It also demonstrates that timely feedback was provided to the contractor on all issues.

The **award fee organizational structure** should be streamlined. Unjustified organizational layers may hamper the flow of information, cause unnecessary paperwork, and create excessive work force demands.

Whenever practical, **all personnel in the award fee organizational structure shall be appointed by position**, rather than by name.

4.1 – Award Fee Determination Official

The AFDO is designated by position in the award-fee plan. The AFDO must be senior enough to ensure the contractor's confidence in the objectivity of the award fee process and to enable communication with the appropriate level of contractor management. For PENREN, the AFDO will normally be the Program Manager or Deputy Program Manager.

The AFDO appoints the AFEB Chairperson, approves the Chairperson's selection of other AFEB members, approves the award fee plan and any changes to it, and makes fee determination decisions. The AFDO ensures award fee earned fairly reflects the contractor's level of performance.

AFDO decisions must be documented. The **AFDO decision letter** (see Annex C, Attachment IV) should include the earned award fee amount and address the contractor's strengths and weaknesses for the period. The AFDO decision letter should **not** include (1) names of individuals, (2) internal rating recommendations of AFEB members, or (3) internal rating tools, such as stars, arrows, etc. The AFDO decision letter will address any fee amounts rolled forward or removed from the contract. The AFDO will sign the decision letter. It should be endorsed by the CO and forwarded to the contractor within 30 days after the end of the evaluation period.

4.2 - Award Fee Evaluation Board

The AFEB evaluates the contractor's overall performance for the award fee evaluation period, and recommends an adjectival award fee rating to the AFDO. The contractor will be allowed to submit a **self-evaluation** for the period to the AFEB Chairperson. A deadline for submission of any written self-evaluation may be established and the length of the self-evaluation may be limited. The contractor will also be invited to make a presentation to the AFEB. The AFEB reviews Performance Monitor evaluations; the contractor's written self-evaluation, if any; and other pertinent information to arrive at an overall performance evaluation. The AFEB may request Performance Monitors to discuss their evaluations. The AFEB may invite others as appropriate so that the AFDO gains further insight into the contractor's performance.

The AFEB is composed of personnel whose experience in acquisition or contract performance allows them to analyze and evaluate the contractor's overall performance. The AFEB will not normally include Performance Monitors. AFEB membership may include personnel from key organizations knowledgeable of the award fee evaluation areas such as Integrated Project Team Leaders, the IM&T Group, user organizations, the PENREN Safety Officer, and the Contracting Officer. On very small contracts the AFEB members may also be the contract's Performance Monitors. AFEB members:

- Must be familiar with the award fee process, contract requirements, and award fee plan.
- Assess the contractor's overall performance for each award fee plan criterion. The AFEB must evaluate the contractor's overall performance according to the criteria stated in the award fee plan.
- Prepare interim evaluation reports, review contractor self-evaluations and Government evaluation reports, consider all information obtained from other pertinent sources, and recommend a performance rating to the AFDO.
- Recommend changes to the award fee plan as required.

AFEB recommendations will be documented. This documentation may include Performance Monitors evaluations; interim letters, contractor self-evaluations; briefings presented to the AFEB; and other data considered.

4.2.1 - AFEB Chairperson

The AFEB Chairperson (who is appointed by the AFDO) selects the remaining AFEB members (who are approved by the AFDO). The AFEB Chairperson appoints (**by position or function**) the Performance Monitors (and the AFEB Recorder, if utilized). The AFEB Chairperson also:

- Briefs the AFDO on individual area performance ratings and overall contractor performance.
- Recommends award fee plan changes to the AFDO.

4.2.2 - Contracting Officer

The CO may be a member of the AFEB and is the liaison between the Government and the contractor. The CO will endorse the AFDO's fee decision letter to authorize the contractor to invoice for the amount of the earned fee. The CO will ensure that funds for the earned award fee amount are properly obligated to the contract and ensure that all unearned award fee funds are de-obligated and/or de-committed in a timely manner. The CO shall notify the contractor in writing of any AFDO-approved changes to the award fee plan.

The CO and the AFEB Chairperson ensure documentation is maintained substantiating AFEB recommendations and AFDO decisions. In addition to the award fee plan and monitor appointment letters, the official contract file should also contain copies of AFDO decision letters and award fee funding documents.

4.2.3 - AFEB Recorder

Although the position of the AFEB Recorder is optional, a Recorder will normally be appointed on major projects. The AFEB Chairperson may designate a Recorder. The Recorder is responsible for performing the duties

assigned by the AFEB Chairperson such as coordinating the administrative actions required in the award fee process. The Recorder is normally a non-voting member of the AFEB. However, a voting member of the AFEB may also perform the Recorder functions. The Recorder's duties may include:

- Notifying Performance Monitors that their evaluations are due.
- Maintaining AFEB files.
- Scheduling meetings and briefings.

4.3 - Performance Monitors

Performance Monitors provide evaluations of contractor performance in specifically assigned areas of responsibility. This, often daily, monitoring is the foundation of the award fee evaluation process.

Performance Monitors are working-level specialists, such as engineers, or quality assurance specialists who are familiar with their assigned evaluation areas of responsibility. With the possible exception of very small contracts, Performance Monitors will not normally be members of the AFEB. Monitors:

- Must be familiar with contract and award fee plan requirements, especially the evaluation criteria for assigned evaluation areas.
- Conduct all assessments according to contract requirements and the award fee plan so that evaluations are fair and accurate.
- Maintain and submit written records of contractor performance in their assigned evaluation areas that detail specific examples where (1) improvement is necessary or desired; (2) improvement has occurred; (3) contract requirements are exceeded or not met.
- Prepare interim and end-of-period evaluations as directed that address contractor weaknesses **and** strengths.
- Be prepared to brief on their evaluation areas.
- Recommend changes to the award fee plan; e.g., award fee pool reallocations, performance area weights, evaluation criteria.

Performance Monitors must provide **justification** for their rating recommendations. A worksheet that mirrors the award fee plan will be used for each evaluation factor (see Annex B and Annex D for samples). Performance Monitors shall submit their written records to the AFEB each month.

Chapter 5 AWARD FEE PLAN

The award fee plan details the procedures for implementing the award fee provisions of the contract. The award fee plan structures the methodology of

evaluating contractor performance to determine the earned award fee amount during each evaluation period. The **award fee plan objectives** should be to (1) provide a clear plan (2) establish evaluation procedures that provide effective, two-way communication between the contractor and the Government, and (3) focus the contractor on areas of greatest importance to motivate the best performance. **It is usually helpful to have prospective AFEB members and Performance Monitors involved in preparing the plan's evaluation factors and criteria.** In developing the award fee plan, keep in mind that it should:

- Identify the responsible persons and detail their responsibilities (see Section 5.1, Award-fee Organization).
- Establish an effective evaluation organizational structure commensurate with the complexity and value of the acquisition.
- List the evaluation periods and their respective fee allocations (see Section 5.2, Evaluation Period Length and Allocation).
- Identify the grades used for measuring contractor performance (see Section 5.3.1, Award fee Grades).
- Identify evaluation factors (see Section 5.3.2, Evaluation Factors).
- Define the evaluation criteria used to grade contractor performance (see Section 5.3.3, Evaluation Criteria).
- List relative importance to be applied to the evaluation factors (see Section 5.3.4, Weighting of Evaluation Factors).

The following sections discuss elements of an award fee plan (also see **Annex A, Award Fee Checklist**, and **Annex B, Sample Award Fee Plan - Template**). Award fee plans do not need to be as elaborate on smaller programs as they are for larger programs. However, the plan should, as a minimum, contain the following elements:

- **Introduction:** identify the contract number, date, and RPF number. Briefly outline the procedures for implementing the contract's award fee provisions.
- **Organizational Structure for Award Fee Administration:** identify the AFDO and AFEB members by position and describe their primary duties. Also identify Performance Monitors by function and describe their primary duties.
- **Evaluation Requirements:** include grades, evaluation factors, evaluation criteria, and relative weights.
- **Method of Determining Award Fee:** describe in detail the award fee evaluation process.
- **Changes in Plan Coverage:** describe the methods for making Award Fee Plan changes.

5.1 – Award Fee Organization

Identify the AFDO and AFEB members **by title/position** to eliminate the need for administrative changes to the plan when individual members change. Performance Monitors may be identified **by function** in the award fee plan (see Chapter 4, Roles and Responsibilities).

5.2 - Evaluation Period Length and Allocation

To allocate the available award fee, the total contract performance time and warranty periods are divided into separate evaluation periods. The amount of the award fee available for allocation is allocated over the evaluation periods. The length of the evaluation periods and allocation of the available award fee pool depend on the acquisition strategy, program needs, and the goals for a particular procurement (see Section 2.5, Allocation of Award Fee). In most PENREN construction contracts evaluation periods are established after the substantial completion date to provide incentives for punch list completion and timely warranty work.

Award fee evaluation periods are normally established by duration - with start and end dates. Evaluation periods need not be equal in length. In some instances (e.g., janitorial services), the contractor may need a short initial evaluation period to become familiar with the work required while the remaining periods of performance are divided equally. Award fee evaluation periods can also be established using milestones or anticipated completion dates. If milestones are used, the evaluation period should end at the completion of the milestone or the anticipated milestone completion date, whichever occurs first.

PENREN evaluation periods on construction contract are normally three months long and they will not normally exceed four months on any type of contract. Carefully select the length of award fee evaluation periods. Evaluation periods that are too short can prove administratively burdensome, lead to hasty evaluations or late award fee determinations, and allow insufficient time for the contractor to improve weakness. If evaluation periods are too long, effective communication between the contractor and Government is jeopardized, the contractor must perform without realizing profit for extended periods, and opportunities to influence contractor performance are reduced.

The Government may unilaterally reallocate the distribution of remaining award fee dollars among subsequent evaluation periods (see Section 2.5). The CO must notify the contractor of such changes in writing in accordance with Award Fee Plan requirements – normally ten (10) to fifteen (15) working days before the affected evaluation period starts. The award fee plan should be modified accordingly. If the total award fee pool and available award fee dollars for each period are stated in the contract, a contract modification must also be

issued. After an evaluation period begins, changes impacting that evaluation period may only be made by mutual agreement.

5.3 - Evaluation Requirements

5.3.1 – Award fee Grades

A critical part of developing the award fee plan is defining grades, evaluation factors, and evaluation criteria. **Grade descriptions should always be general and subjective** because they are not used with objective performance criteria. The award fee plan may include a percentage range assigned to each adjectival grade, which will ultimately result in the percentage of award fee earned by the contractor during any evaluation period. **PENREN contracts will normally use the following four grades: Excellent, Very Good, Good, and Poor/Inadequate.** No award fee will be paid for Poor/Inadequate ratings. Grade descriptions must be tailored to acquisition requirements. Some grade description examples are shown in Annex B.

5.3.2 – Evaluation Factors

The award fee plan lists the evaluation factors (e.g., quality of work, change management, customer relations, project closeout, warranty work, system commissioning) to be evaluated. **Spreading the potential award fee over a large number of factors dilutes emphasis.** Instead, **broad factors are selected and supplemented by a limited number of criteria describing significant evaluation elements over which the contractor has effective management control.** Program history and past performance can be helpful in identifying problem areas to focus on during evaluations. **In PENREN, evaluation factors will not normally be weighted. Rather, they will be expressed in terms of relative importance, one to the other, e.g., "Factor 1 is more important than Factor 2. Factors 2 and 3 are of relatively equal importance."** See the Evaluation Period Schedule in Annex B for an example. **The relative importance of factors may vary from one period to another.**

Award fee plans are tailored to the strategy of the individual procurement. It is neither necessary nor desirable to include an evaluation factor for each function in the statement of work. However, **socioeconomic subcontracting considerations, including outreach efforts, will always be an award fee factor for contracts requiring a subcontracting plan.**

If the contract is a manpower support contract, a separate surveillance plan may be required for any areas not covered by the award fee plan.

The evaluation factors selected should all be important to the success of the program so neither the Government nor the contractor uses inordinate resources on minor tasks to the detriment of major tasks. The functions

included in the award fee plan should be balanced so that contractors, making trade-offs between categories of performance, may assign the proper importance to all the critical functions identified. For example, the award fee plan should generally emphasize technical performance, quality, management practices, and cost control considerations because an evaluation limited to technical performance might result in increased costs that are out of proportion to any benefits gained.

Some basic areas of performance need to be in every award fee contract. In general, quality (technical merit, design innovation, reliability, etc.), safety, commissioning activities, and schedule will always be important. However, **the relative importance and measure of performance in each area may vary according to the needs of each acquisition.**

5.3.3 - Evaluation Criteria

The **award fee plan** must state the evaluation criteria used to grade each evaluation factor. The criteria should **emphasize the most important aspects of the program** to motivate the contractor in a positive way. Award fee plan criteria that are too broad or inapplicable to a given function make it difficult for Performance Monitors to provide meaningful evaluations.

Depending upon the procurement situation, performance evaluation criteria may include output, input, or a combination of both factors. Output factors refer to the end results of contract performance, such as: the quality of the end items or services, the actual time of delivery or completion, or the incurred costs. Input factors refer to intermediate processes, procedures, actions, or techniques that are key elements influencing successful contract performance. These include, for example, document quality and control.

Examples of categories of performance and associated criteria are shown in the Evaluation Factors and Criteria section of **Annex B, Sample Award Fee Plan Template**. The examples do not cover all possible criteria.

5.3.4 - Weighting of Evaluation Factors

As contract work progresses, the relative importance of performance factors and criteria may change. The award fee plan should indicate the relative priorities assigned to the evaluation factors. **In PENREN the importance of evaluation factors is expressed in terms of relative importance rather than numerical weights.**

5.4 - Grading and Scoring Contractor Performance

Grading and scoring methods translate evaluation findings into potential earned award fee amounts. The contractor begins the evaluation period with 0% of the available award fee and works up to the earned award fee based on performance during that evaluation period. Contractors **do not** begin with 100% of the available award fee and have deductions taken. **In PENREN the grades are normally expressed in terms of an adjectival rating, i.e., Excellent, Very Good, Good or Poor/Inadequate.** Any grading system is an evaluation tool and not a substitute for exercising judgment in the fee determination process. **This process can not be reduced to a mathematical formula or method.**

In developing a grading/scoring methodology remember:

- **When Government actions impact contractor performance**, either positively or negatively, consider them in the scoring and grading process. Such Government actions include additions and deletions of contract work, and changed emphasis on technical requirements that require the contractor to make unexpected and extensive trade-offs with other requirements.
- **The process should be as clear and as simple as possible.**
- **The entire available award fee amount should be attainable.** However, the process loses its ability to motivate the contractor if the maximum fee is awarded without regard to performance.

5.5 - Conversion Tables

PENREN award fee plans will not normally include conversion tables or graphs with formulas that translate the contractor's rating into an award fee amount. Conversion tables or graphs are often inappropriately used to remove the element of judgment from an otherwise subjective award fee process.

5.6 - Changing the Award Fee Plan

Award fee plan changes must be coordinated with the AFEB. Award fee plan changes must be approved by the AFDO. After approval, the CO shall notify the contractor in writing of the changes. Unilateral changes may be made to the award fee plan if the contractor is given written notice in accordance with award fee plan requirements, normally between ten and fifteen working days before the start of any impacted evaluation period. **Changes impacting the current evaluation period** may only be made with the consent of both parties.

5.7 - Contract Termination

If the contract is terminated for the convenience of the Government after the start of an award fee evaluation period, the earned award fee amount will be

determined by the AFDO using the normal award fee evaluation process. Award fees for all subsequent evaluation periods will not be considered available or earned and, therefore, shall not be paid. The award fee is not subject to the Allowable Cost and Payment or Termination clauses of the contract.

Chapter 6 AWARD FEE EVALUATION PROCESS

The award fee evaluation process actually begins when the award fee plan is drafted. The plan describes what and how contractor performance will be evaluated (see Chapter 5, Award Fee Plan). **The effectiveness of the award fee evaluation process is often enhanced if prospective AFEB members and Performance Monitors have been involved in the preparation of the plan's evaluation factors, evaluation criteria, and grading definitions.** For the purpose of this discussion, the award fee evaluation process will be broken into four segments: training, interim evaluations, end-of-period evaluations, and delivery order of task order contract evaluations.

6.1 - Training

Training should begin before a contract is awarded so that personnel understand the award fee process before beginning their duties. Training of all personnel involved in the award fee process is essential. It should cover the award fee plan, roles, responsibilities, documentation requirements, and evaluation techniques. Training should, for example, address:

- What is award fee contracting?
- What is being evaluated?
- How will information be gathered? What **techniques** will be used (e.g., observation, inspection, and sampling; review of reports and correspondence, and customer surveys)?
- How is award fee information protected?
- What **standards of conduct** apply to personnel in the process?
- When is information obtained (e.g., daily, weekly)?

6.2 - Interim Evaluations

Continual and timely communication with the contractor is essential for a successful award fee contract. Interim evaluations identify strengths and weaknesses in overall performance during lengthy evaluation periods. Interim (normally mid-term) evaluations are required in award fee contracts having evaluation periods longer than six months. **Evaluation periods on PENREN contracts will not normally exceed four months. Consequently, interim evaluations will not normally be done at PENREN.**

6.3 - End-of-Period Evaluations

End-of-period evaluation efforts begin at the start of the first evaluation period and last through the end of the final evaluation period. **Performance Monitors will submit their written documentation and evaluations to the AFEB within 7 calendar days after the end of each period.**

The AFEB will meet promptly and prepare its preliminary findings for the Award Fee Evaluation Board Report (AFEER) (see Annex C, Sample AFEER Slides/Template). The AFEER will be in the form of briefing charts. The preliminary AFEER will address an overall assessment of contractor performance, contractor strengths and weakness, and will **not** contain a recommended overall award fee amount or percentage.

Following the summarization of the preliminary findings, the AFEB should meet with the contractor to discuss the preliminary findings and probable recommendations. The AFEB Chairperson may request monitors or others to attend the meeting and participate in discussions. The contractor will be given an opportunity to submit information, including a self-assessment for the period. Following the meeting with the contractor, the AFEB will consider all matters presented and finalize the AFEER. The AFEER will include any contractor input and any recommended changes to the Award Fee Plan. The AFEB Chairperson will schedule a meeting with the AFDO within fifteen (15) days after the end of the evaluation period to present the AFEER. The AFEER will be forwarded to the AFDO and the Contractor three to five days before the AFDO meeting.

The AFEB Chairperson, or designee, will present the AFEER. The meeting may include presentations from each Performance Monitor. Monitor presentations may include recommended evaluations for their assigned areas. The contractor shall not be present during this portion of the meeting. Following discussion of the AFEER, the contractor will be given the opportunity to make a brief presentation. The contractor's presentation is not a negotiation. It is an opportunity to listen to the contractor's perspective. An Executive Session will follow the contractor presentation. It will include the AFDO, AFEB Chairperson and members, and others the AFDO may invite, e.g., legal counsel. Following discussions, the AFDO will decide the appropriate award fee amount.

The AFDO fee determination letter (see Annex B, Attachment 4) will be prepared according to the AFDO's instructions by the AFEB Chairperson and sent to the AFDO for signature. The fee determination letter should be clear and concise, informing the contractor of the award fee amount, and any major contractor strengths and weakness displayed during the period. It should also indicate any amounts rolled forward or removed from the Award Fee Pool. The signed decision letter will be forwarded to the CO who will endorse it to indicate the contractor may invoice for the amount approved in the letter. The CO will forward the letter to the contractor.

The contractor will be given the opportunity to schedule a debriefing with the AFDO and AFEB. The PENREN goal is to provide payment to the contractor within 30 calendar days after the close of the award fee evaluation period. The CO will take timely action to de-obligate and/or de-commit all unearned award amounts removed from the contract by the AFDO.

6.4 - Delivery or Task Order Contract Evaluations

The basic award fee process is similar for delivery and task order contracts. In developing the original ordering contract a general award fee plan should be developed for the contract. It should provide the expected award fee criteria, but reserve the right to revise the criteria as appropriate for individual orders. Following award of the basic contract, or as part of the original solicitation, the contractor will be provided the AFDO-approved award fee plan.

To the extent that the services required under individual orders are similar to the scope of the basic contract, the contractor's performance will be evaluated against the award fee criteria established for the basic contract and the task order should state that the criteria of the basic plan apply to the task order. To the extent that these contracts allow for the placement of requirements on orders that are independent of other orders or are unique in nature, the task order should state the specific award fee criteria applicable to the requirements, and the contractor's performance under the order should be evaluated against such criteria.

The maximum award fee available and the award fee amount earned would be specific to each order and match the funds used on the associated effort. The fiscal principles that must be observed are relatively inflexible. Since the award fee funds must normally match the appropriation that funded performance of the work, the commingling of funds from multiple fiscal years or different appropriations must be avoided (see also Chapter 4, Funding).

Unless the award fee percentage was established by the terms of the basic ordering contract or regulatory limits applying to certain A&E contracts (see Section 3.1), the award fee pool amounts may be established based on the negotiated fee amounts for each task order. The Contracting Officer will normally establish the distribution of each task order award-fee pool and determine the number and length of the award fee periods concurrently with the award of each task order. Each task order shall state the award fee amount associated with the order, the distribution of the award fee pool, and the number and length of award fee periods associated with each task order.

Annex A
AWARD FEE CHECKLIST

AWARD FEE PLAN: As a minimum:		
Identify AFDO and AFEB by Position		
Identify Performance Monitors by Function		
Define Grades used to Measure Contractor's Performance		
Define Categories of Performance (e.g., Technical, Cost Control)		
Specify evaluation weights or relative weights, as applicable		
Define the Evaluation Criteria (e.g., What constitutes Excellent Performance for Cost Control?)		
List Evaluation Periods by Date or Milestone and Anticipated Completion Date		
List Allocation of Funds by Dollar Amount or Percentage of Available Award Fee by Evaluation Period		
Establish Scoring Mechanism, if applicable		
Address Interim Evaluations, if applicable		
Set up General Procedures for AFEB		
AWARD FEE PLAN COORDINATION AND APPROVAL		
Contracting Officer		
Contracting Team Leader		
Award Fee Evaluation Board Chairperson		
Approved by the AFDO		
AWARD FEE DETERMINING OFFICIAL:		
Program Manager		
Deputy Program Manager		
Other		
GENERAL:		
Incorporate Award fee Plan in the Draft RFP		
Incorporate Award fee Plan in the Final RFP		
Train all personnel involved in the award fee process		
Document Rollover, Reallocation Justification in Official Contract File		
Document AFDO Decision in Official Contract File		
CONTRACT CLAUSE: Include award fee clause in contract		

Annex B
Award Fee Plan Template

(Fill-in information is shown in bold italics.)

AWARD FEE PLAN
FOR
(TITLE OF PROGRAM)
(DATE OF APPROVAL)
(Contractor's Name)

COORDINATED:

APPROVED:

Contracting Officer

Award Fee Determining Official
(Title)

Award Fee Evaluation Board Chairperson

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V	Evaluation Factors and Criteria	
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Attachments

<u>Attachment</u>	<u>Title</u>	<u>Page</u>
1	Monitor's Award Fee Evaluation Worksheet	
2	Monitor's Evaluation and Assessment Record	
3	Sample Performance Monitor Assignment Letter	
4	AFDO Determination Letter Template	

AWARD FEE PLAN

I. INTRODUCTION

1. This award fee plan covers the administration of the award fee provisions of contact number **(contract number)**, dated **(date)**, with **(Contractor)** which was awarded in accordance with the provisions of Solicitation MDA 947-XX-R-XXXX.
2. The purpose of the award fee provisions of this contract and the award fee plan is to incentivize superior Contractor performance by providing a clear and fair process for recognizing, evaluating, and compensating the Contractor for such performance.
3. As prescribed in Section H, clause H-xx, Performance Monitors will continually monitor the Contractor's performance. Their findings will be reported to the Award Fee Evaluation Board (AFEB). The AFEB recommends an award fee adjectival rating for the Contractor's performance to the Award Fee Determination Official (AFDO). The AFDO determines an award fee amount for the award fee period under consideration based upon the Contractor's performance during that period.
4. Subsequent parts of this plan cover the general topics indicated below:
 - a. Part II describes the Award Fee Organization.
 - b. Part III lists the award fee evaluation periods. The award fee earned will be periodically determined by the AFDO in accordance with the schedule contained in Part III.
 - c. Part IV discusses the maximum available award fee for each period.
 - d. Part V describes the award fee performance factors and their respective evaluation criteria.
 - e. Part VI addresses award fee ratings and percentile scores.
 - f. Part VII describes the method for evaluating contractor performance and determining the amount of earned award fee.
 - g. Part VIII states the method and steps used to change the award fee plan.

II. ORGANIZATIONAL STRUCTURE FOR AWARD FEE ADMINISTRATION

The following organizational structure is established for administering the award fee provisions of the contract.

1. **Award Fee Determination Official (AFDO)** - The AFDO is: (by position). Primary AFDO responsibilities are:
 - a. appoint the Award Fee Evaluation Board (AFEB) Chairperson,
 - b. meet with the representatives of the AFEB and receive the Award Fee Evaluation Board Report (AFEER) prior to making award fee determinations,
 - c. determine the award fee earned and payable for each evaluation period,
 - d. approve changes to this plan in accordance with Part VIII of the plan.
2. **Award Fee Evaluation Board (AFEB)** - The Chairperson of the AFEB is: (by position) [e.g., Geographic Integrated Project Team Leader (GIPTL)].
 - a. As appointed by the Chairperson, the following are AFEB voting members: (list voting members, e.g.):
 - 1) Operation Group Leader,
 - 2) Safety Officer
 - 3) Federal Facilities Division (FFD) Representative
 - 4) Contracting Officer
 - b. The Chairperson may appoint non-voting members to assist the AFEB in performing its functions, e.g., performance monitors. Primary responsibilities of the AFEB are:
 - 1) meet periodically as required to assist in evaluations of contractor performance,
 - 2) submit to the AFDO an AFEER covering AFEB findings for each evaluation period,
 - 3) when appropriate, recommend changes in the award fee plan to the AFDO (see Part VIII),
3. **Performance Monitors:** At least one monitor will be assigned to each performance factor or subfactor to be evaluated.

Monitors will observe Contractor performance in their assigned area of responsibility. They will report their observations to the AFEB and make

recommendations concerning their assigned factor or subfactor. Primary monitor responsibilities are:

a. Monitoring and Assessing Contractor Performance, including:

- 1) planning and executing on-site assessment visits,
- 2) conducting all assessments in an open, objective, and cooperative spirit,
- 3) reporting complete and accurate information, including the assignment of appropriate emphasis to positive Contractor accomplishments as well as areas that require improvement,
- 4) maintaining records concerning assessments,
- 5) constructively discussing assessments with appropriate Contractor personnel,
- 6) affording Contractors the opportunity to correct or resolve apparent deficiencies,
- 7) accomplishing all activities in a manner that fosters professional working relationships,
- 8) avoiding all activities and associations that might cause, or give the appearance of, a conflict of interest,
- 9) avoiding situations that might give the impression or appearance that the Monitor is attempting to manage, control, or supervise the Contractor's activities.

b. Completing Award Fee Evaluation Worksheets (Attachment 1) and Evaluation and Assessment Records (Attachment 2) to the AFEB Chair each month.

c. Preparing and making verbal reports of assessments and evaluations, including presentations to the AFDO, as required by the AFEB Chairperson.

III. EVALUATION PERIODS

The award fee evaluation periods for this contract are set forth in the table below. **(Describe and clarify any unusual features of the organization of the performance periods. For example, in some phased contracts the warranty evaluation periods for the first phase may overlap the performance evaluation periods for the second phase.)** The evaluation factors for each period and their relative order of importance are also indicated below. Award fee evaluations periods will occur **(insert duration of evaluation periods, e.g., on a quarterly basis)**. The Government reserves the right to revise the evaluation period schedule as well as the factors to be considered in each period (see Part VIII).

Evaluation Period Schedule (Sample)

Period	Dates Covered	Expected Presentation Date to AFDO	Evaluation Factors Considered and Order of Importance
1	Award – 30 Sep 02	15 Oct 02	1>2
2	1 Oct – 31 Dec 02	14 Jan 03	1>2=3
3	(etc.)	(etc.)	(etc., for example)
4			2>3>4
5			5
6			5

IV. MAXIMUM AVAILABLE AWARD FEE FOR EACH PERIOD

As stated in the contract, the maximum available award fee shall be 10% of the contract value. All additional award fees available and generated from contract modifications will be added to or subtracted from the contract and Section B of the contract revised accordingly.

The maximum available award fee pool shall be allocated to each evaluation period based on the Contractor's approved progress payments. The award fee pool for periods 1 through (XX) shall represent (X%, e.g., 9.5%) of the progress payments made during each evaluation period. The remaining (X%, e.g., 5%) will be withheld from the award fee pool and will be distributed in equal amounts in periods (XX through XX – normally the warranty period).

V. EVALUATION FACTORS AND CRITERIA

The Contractor's performance shall be evaluated against the following award fee evaluation factors and criteria. The order or importance for each factor during each period is as stated in the schedule in Part III above. **(The following sample factors are taken from a design-build construction contract. Evaluation factors and criteria must be tailored to the individual contract's requirements.)**

1. Factor 1 – Design and Construction Performance. The following subfactors, which are of equal importance to each other and to their respective performance criteria, will be considered:
 - a. Quality of Work – the following criteria apply:
 - 1) effectiveness of contractor, consultants, and subcontractors Quality Control programs,
 - 2) conduct and coordination of Contractor Quality Control inspections,
 - 3) responsiveness to Government concerns regarding quality issues,
 - 4) overall quality of work performed,
 - 5) safety performance and management commitment to safety requirements,
 - 6) management commitment to security requirements,
 - 7) management commitment to energy sustainable design.
 - b. Change Management and Cost Control – the following criteria apply:
 - 1) early identification and resolution of design and/or construction problems,
 - 2) timely submission and equitable pricing of requested proposals for changed work,
 - 3) efforts and success in mitigating costs for changes conditions,
 - 4) effectiveness in management of consultant and subcontractor proposals,
 - 5) minimization and timely resolution of claims or requests for equitable adjustments,
 - 6) effectiveness in management of the Request for Information process – minimization of frivolous submissions; adequacy of contract document review prior to submission of clarification requests; proposal of recommended solutions,
 - 7) effectiveness in phasing the work for the most efficient use of work crews and resources,
 - 8) effectiveness of universal space design in minimizing core and shell cost impacts due to tenant changes.
 - c. Resource Management – the following criteria apply:

- 1) effectiveness of coordination and cooperation with other Government contractors,
- 2) acquisition, retention, and effective use of resources, including subcontractors,
- 3) effectiveness of integrated design and construction resources,
- 4) effectiveness of key personnel.

d. Project and Program Controls/Government Insight – the following criteria apply:

- 1) establishment of effective project and program controls, including metrics,
- 2) processes established to appropriately involve the Government in design and management decision-making process,
- 3) timely implementation of approved design changes,
- 4) keeping the Government apprised of current cost and schedule status,
- 5) management effectiveness in maintaining approved schedules,
- 6) efforts and success in achieving early completion of milestones,
- 7) effectiveness of communication with Government representatives,
- 8) effectiveness in coordinating with other Government contractors.

e. Customer Relations – the following criteria apply:

- 1) cooperation and proactive involvement in problem mitigation/solving,
- 2) timely response to Government requests,
- 3) continuing efforts to maximize efficiencies and contract budget.

2. Factor 2 – System Commissioning – the following criteria apply:

- a. effectiveness in coordination of, execution of, and adherence to the commissioning plan through all phases of the project,
- b. timeliness, quality, and thoroughness of SOMMS, O&M manuals, and training,
- c. timeliness and quality (includes accuracy and format) of monthly as-built drawing updates and other submittals required by the commissioning process.

3. Factor 3 – Socioeconomic Programs Compliance – the following criteria apply:

- a. Contractor's good faith efforts and success rate in meeting and exceeding the subcontracting goals in the approved subcontracting plan (the Contractor may earn award fee even if the goals are not met, provided that a positive program of socioeconomic program compliance is accomplished in good faith),
 - b. timely compliance with contractual reporting requirements,
 - c. timely and accurate submission of semi-annual reporting documentation,
 - d. efforts and results in transferring QC/QA technology to small, small disadvantaged, HUBZone, and women-owned small businesses,
 - e. outreach efforts to attract qualified small, small disadvantaged, HUBZone, or women-owned subcontractors to the project,
 - f. mentoring activities for small, small disadvantaged, HUBZone, or women-owned subcontractors working on the project.
4. Factor 4 – Project Closeout – the following criteria apply:
- a. effective scheduling and management of turnover actions,
 - b. minimization and timely resolution of punch-list items.
5. Factor 5 – Post-Construction/Warranty – the following criteria apply:
- a. timely response to warranty calls,
 - b. quality of repairs,
 - c. effectiveness of communication with Government representatives,
 - d. cooperation and proactive involvement in problem mitigation/solving,
 - e. effectiveness in coordination and execution of seasonal and other deferred functional performance testing,
 - f. effectiveness of the measurement and verification system and timeliness and accuracy of reports,
 - g. success in meeting the energy performance requirements of the contract and the systems as designed or in achieving better energy performance than required.

VI. GRADING AND SCORING

The AFDO shall use the following adjective ratings to determine the level of the Contractor's performance. Based on these ratings the AFDO shall also determine the percentage of available award fee that the Contractor should earn. Award fee shall not be earned for poor or inadequate performance as indicated in the table below.

Grading and Scoring Table

Adjectival Rating and % Range of Award Fee Earned	Description
Excellent 85% - 100%	Contractor's performance of task requirements is uniformly well above the standards and threshold set forth in the contract. Self-initiated, innovative management actions have resulted in tangible benefits to the Government in the form of improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements or needs.
Very Good 75% - 84%	Contractor's performance of most task requirements is above the standards and thresholds set forth in the contract. Innovative management actions have resulted in some tangible benefits to the Government in the form of improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements.
Good 60% - 74%	Contractor's performance of some task requirements is above the standards and thresholds set forth in the contract, while the remainder of the Contractor's effort meets contract requirements. Management actions taken or initiated have resulted in demonstrated benefits to the Government in the form of improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements.
Poor – Inadequate 0% - 59%	Contractor's performance barely meets or does not meet the contract requirements. Management actions taken or initiated have not resulted in improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements. Inadequate Contractor performance may result in adverse contract actions.

VII. METHOD FOR DETERMINING AWARD FEE

1. A determination of the award fee earned for each evaluation period will be made by the AFDO. The assignment of a rating will be made in accordance with Part VI

above. The Contracting Officer will then issue an authorization to the Contractor to invoice for the earned amount. Payments of earned award fee should be made within 30 days after the end of an evaluation period.

2. The method to be followed in monitoring, evaluating and assessing contractor performance during the period, as well as for determining the award fee earned or paid, is described below. The principal activities and schedules involved are also summarized below.
 - a. The AFEB Chairperson will ensure a monitor is assigned in writing for each performance evaluation factor or subfactor to be evaluated under the contract. Monitors will be selected on the basis of their expertise relative to prescribed performance area emphasis. Normally, monitor duties will be in addition to, or an extension of, regular responsibilities. The AFEB Chairperson may change monitor assignments at any time without advance notice to the Contractor. The AFEB Chairperson will ensure that each monitor receives the following:
 - 1) a copy of this plan and any changes made in accordance with Part VIII,
 - 2) appropriate orientation and guidance, and
 - 3) specific instructions applicable to the monitor's assigned performance area.
 - b. Monitors will evaluate and assess contractor performance and discuss the results with contractor personnel as appropriate in accordance with this plan and any additional instructions or guidance furnished by the AFEB Chairperson. Monitors will submit monthly Performance Monitor Reports.
 - c. The AFEB Chairperson may request and obtain performance information from other personnel normally involved in observing contractor performance, as appropriate.
 - d. The AFEB will consider the monthly Performance Monitor Reports and other performance information obtained. The AFEB will discuss the reports and information with monitors or other personnel, as appropriate.
 - e. The AFEB will meet monthly with the Contractor and discuss Contractor performance during the period. As requested by the AFEB Chairperson, monitors and other personnel involved in performance evaluations will attend the meeting and participate in discussions.
 - f. Promptly after the end of each evaluation period, the AFEB will meet to consider all the performance information it has obtained. At the meeting, the AFEB will summarize its preliminary findings and recommendations for coverage in the Performance Evaluation Board Report (AFEER). This report will be in the form of briefing charts. The charts will address the AFEB's

evaluation of the Contractor's performance, to include Contractor strengths and weaknesses, recommended assessments for each factor, and an overall adjectival performance rating recommendation.

- g. Following initial preparation of the AFEBR, the AFEB may meet with the Contractor to discuss the board's preliminary findings and recommendations. As requested by the AFEB Chairperson, monitors and other personnel involved in performance evaluation will attend the meeting and participate in discussions. At this meeting, the Contractor will be provided an opportunity to submit relevant information and a performance self-assessment for the evaluation period. After meeting with the Contractor, the AFEB will consider matters presented by the Contractor and finalize its findings and recommendations for the AFEBR. The AFEBR will include the Contractor's input.
- h. Approximately 15 days after the end of each period, as shown in the table under Part III, the AFEB Chairperson will schedule a meeting with the AFDO to present the AFEBR for the rating period. The meeting will begin with presentations from each Performance Monitor to discuss the Contractor's performance, strengths and weaknesses, and recommended evaluation assessments for their assigned areas. The AFEB Chairperson, or designee, will then present the AFEBR. Following the AFEB Chairperson's presentation, the Contractor will be invited into the meeting to make a presentation to the AFDO. The final phase of the meeting consists of an Executive Session, which is attended only by the AFDO, AFEB Chairperson, AFEB members, legal counsel and a recorder of record. The AFDO decides on the award fee percentage earned by the contractor. Discussions may be held to determine the language to be included within the AFDO decision letter and to calculate the amount earned. The AFDO decision letter, with the attached briefing charts, will then be signed by the AFDO and sent to the Contracting Officer for immediate action (see Attachment IV for a decision letter template).
- i. The AFDO will determine whether the unearned award fee for the evaluation period will be added to subsequent evaluation periods or removed from the award fee pool, and will so state in the AFDO decision letter. The Government may elect to distribute unearned award fee evenly to subsequent periods, or to apply any unearned award fee to one or more specific evaluation periods if the AFDO determines that a certain period or periods require increased performance incentives.
- j. The Contracting Officer will endorse the AFDO's award fee decision letter for the purpose of authorizing payment of the earned award fee and will forward the letter to the Contractor. The Contractor may bill for the award fee immediately upon receipt of the Contracting Officer's authorization.

3. The following is a summary of the principal actions involved in determining the award fee for the evaluation periods:

Action	Workdays
1. Monitors assess performance and discuss results with Contractor.	Ongoing after start of period
2. Monitors submit Performance Monitor Reports to AFEB.	Last day of each month
3. AFEB considers Performance Monitor Reports and other requested performance information.	Ongoing
4. AFEB discusses overall performance with the Contractor during period.	5 days after end of each month
5. AFEB meets and summarizes preliminary findings and develops the AFEFR.	10 days after end of period
6. AFEB meets with AFDO and Contractor to brief findings and determine Award Fee earned.	15 days after end of period
7. AFDO issues the decision letter and the Contracting Officer endorses the letter to authorize payment.	NLT 30 days after end of period

The AFEB will establish lists of subsidiary actions and schedules as necessary to meet the above schedules.

VIII. CHANGES IN PLAN COVERAGE

1. Steps to Change Plan Coverage

Summary of the Principal Actions Involved in Changing Plan Coverage

Action	Workdays
AFEB drafts proposed changes	Anytime
AFEB submits recommended changes to AFDO for approval	30 days prior to end of each period.
Through Contracting Officer, AFDO notifies Contractor as to whether or not there are changes	15 days before start of the applicable period.

The AFEB will establish lists of subsidiary actions and schedules as necessary to meet the above schedules.

2. Method for Changing Plan Coverage. The method to be followed for changing the plan coverage is described below:

- a. Personnel involved in the administration of the award fee provisions of the contract are encouraged to recommend plan changes with a view toward changing management emphasis, motivating higher performance levels, or improving the award fee determination process. Recommended changes should be sent to the AFEB for consideration and drafting.
- b. At least 30 days prior to the end of each evaluation period, the AFEB will submit its recommended changes, if any, applicable to the next evaluation period for approval by the AFDO with appropriate comments and justification.
- c. Not less than 15 working days before the beginning of each evaluation period, the Contracting Officer will notify the Contractor in writing of any changes to be applied during the next period. If the Contractor is not provided this notification at least 15 working days before the beginning of the next period, and the Contractor does not agree to the recommended changes, the existing plan will continue in effect for the next evaluation period.

4 Attachments

1. Performance Monitor Award Fee Evaluation Worksheet
2. Performance Monitor Monthly Evaluation and Assessment Record
3. Sample Performance Monitor Assignment Letter
4. Sample Award Fee Determination Letter

ATTACHMENT I

PERFORMANCE MONITOR AWARD FEE EVALUATION WORKSHEET

(See also Annex D for Alternative Evaluation Sheet)

(Insert Contract Title)

Contract No. _____

PERIOD OF EVALUATION: _____ (insert dates)

PERFORMANCE EVALUATION FACTOR: _____ (insert title)

EVALUATION RATING (circle one): Excellent Very Good Good
 Poor/Inadequate

JUSTIFICATION FOR RATING: (Address strengths and weaknesses of each standard for measuring performance noted in the award fee plan.)

COMPLETE THE FOLLOWING IF SUBFACTORS ARE APPLICABLE:

SUBFACTOR: _____ (insert title)

COMMENTS: (Address each criterion for measuring performance)

SUBFACTOR: _____ (insert title)

COMMENTS: (Address each criterion for measuring performance)

(Use additional sheets as needed)

(Name & Signature)

(Date)

ATTACHMENT III
SAMPLE PERFORMANCE MONITOR ASSIGNMENT LETTER

Pentagon Renovation Program
June 1, 2001

MEMORANDUM FOR John Smith

SUBJECT: Pentagon Wedges 2-5 Award Fee Performance Monitor Assignment Letter.

This letter is to officially assign you as a Pentagon Wedges 2-5 Performance Monitor. You will be assigned to monitor the Performance Evaluation Factor #1, Design and Construction Performance. Please refer to the Pentagon Wedges 2-5 Award Fee Evaluation Plan for your responsibilities. The contractor will be notified of your assignment.

Joseph J. Sacco, AIA
Chairperson, Award Fee Evaluation Board

CF: Award Fee Determination Official

ATTACHMENT IV

AWARD FEE DETERMINATION LETTER TEMPLATE

XX October 20XX

*Appropriate Firm's POC
Firm's Name and address*

*Subject: Second Period Award Fee Determination
(Contract Title and Number)*

Dear XXXXXX:

This letter formalizes the results of the Award Fee evaluation conducted in September 20XX by the Pentagon Renovation Program Office for your second award fee performance period (July 1, 20XX – September 30, 20XX).

The evaluation was based on the factors stated in the approved Award Fee Plan for your contract. The total Award Fee Pool of \$(insert amount) represents 100 percent of the available award fee for the second award fee period.

Evaluation Factor	Fee Pool
Factor 1 (insert title)	\$(insert available fee for Factor 1)
Factor 2 (insert title)	Etc.
Subtotal	
Rollover Amount from prior periods	
Total Pool Available for this period	

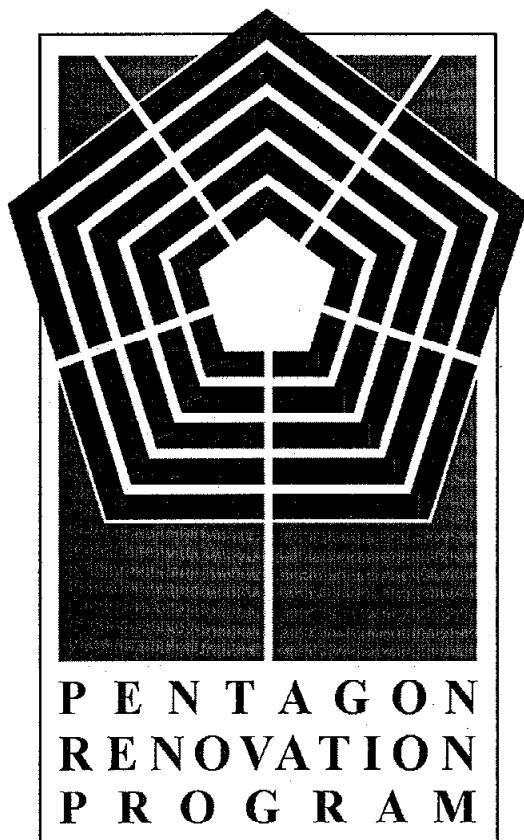
Based on your team's overall performance in each of the evaluated areas, I have decided to award you xx% of the total available award fee pool for this period. The total fee awarded for this period is \$(insert amount). Fee in the amount of \$(insert amount) will be rolled forward to (describe allocation of rollover) (use only when fee is rolled forward). The remaining amount of \$(insert amount) will be permanently removed from the award fee pool (use only when fee is removed from the award fee pool).

(Briefly describe performance in the evaluated evaluation factors during the period.)

Sincerely,

WALKER LEE EVEY
Award Fee Determining Official

(Insert Contracting Officer's Name and Title)



**Award Fee Evaluation Board
Recommendation
for
(Insert Name of Company)**

**Evaluation Period #_
(Insert beginning/end dates of period)**

Insert Project Name

Date

AFEB Chairperson



Overview

- ✓ Design/Build of the Pentagon Metro Entrance Facility
 - Awarded to Hensel Phelps on 25 September 2000.
 - Fixed-price incentive contract, 10% award fee, 0% base fee
- ✓ First of 10 Evaluation Periods
 - 8 during contract performance
 - 2 during year-long warranty period
- ✓ Contract value as of end of this evaluation period
 - \$31,764,397 Total Target Cost
 - \$ 3,176,440 Total Award Fee
- ✓ Award Fee Allocation
 - 9.25% of progress payments allocated to this period:
 - $(\$2,609,291 \times 9.25\% = \$241,359)$
 - Remaining 0.75% set aside for Periods 9 & 10 (Post-construction/Warranty Factor)
 - $(\$2,609,291 \times 0.75\% = \$19,570)$



Evaluation Team

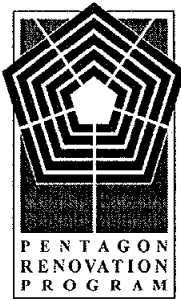
✓ Award Fee Determination Official - Lee Evey

✓ Award Fee Evaluation Board:

- _____
- _____
- _____
- _____

✓ Performance Monitors:

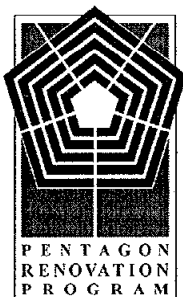
- _____
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Evaluation Factors

- ✓ Factor 1 - Design and Construction Performance
 - Quality of Work
 - Change Management and Cost Control
 - Resource Management
 - Project and Program Controls/Government Insight
 - Customer Relations
- ✓ Factor 2 - System Commissioning
- ✓ Factor 3 - Socioeconomic Programs Compliance*
- ✓ Factor 4 - Project Closeout*
- ✓ Factor 5 - Post-construction/Warranty*

* Not rated this period



Evaluation Ratings

Adjectival Rating and % Range of Award Fee Earned	Description
<p>Excellent 85% - 100 %</p>	<p>Contractor's performance of task requirements is uniformly well above the standards and threshold set forth in the contract. Self-initiated, innovative management actions have resulted in tangible benefits to the Government in the form of improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements or needs.</p>
<p>Very Good 75% - 84%</p>	<p>Contractor's performance of most task requirements is above the standards and thresholds set forth in the contract. Innovative management actions have resulted in some tangible benefits to the Government in the form of improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements.</p>
<p>Good 60% - 74%</p>	<p>Contractor's performance of some task requirements is above the standards and thresholds set forth in the contract, while the remainder of the Contractor's effort meets contract requirements. Management actions taken or initiated have resulted in demonstrated benefits to the Government in the form of improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements.</p>
<p>Poor – Inadequate 0%</p>	<p>Contractor's performance barely meets or does not meet the contract requirements. Management actions taken or initiated have not resulted in improved quality, reduced costs, increased timeliness, or generally enhanced responsiveness to Government requirements. Inadequate Contractor performance may result in adverse contract actions.</p>



Design and Construction Performance Quality of Work

✓ The following criteria apply:

- effectiveness of contractor, consultant and subcontractor Quality Control programs
- conduct and coordination of Contractor Quality Control inspections
- responsiveness to Government concerns regarding quality issues
- overall quality of work performed
- safety performance and management commitment to safety requirements
- management commitment to security requirements
- management commitment to energy sustainable design

✓ Strengths:

✓ Areas for Improvement:

Page 43

✓ Subfactor Rating: _____



Design and Construction Performance Change Management and Cost Control

✓ The following criteria apply:

- early identification and resolution of design and/or construction problems
- timely submission and equitable pricing of requested proposals for changed work
- efforts and success in mitigating costs for changed conditions
- effectiveness in management of consultant and subcontractor proposals
- minimization and timely resolution of claims or requests for equitable adjustment
- effectiveness in management of the Request for Information process
- effectiveness in phasing the work for most efficient use of work crews and resources

✓ Strengths:

✓ Areas for Improvement:

✓ Subfactor Rating: _____



Design and Construction Performance Resource Management

- ✓ The following criteria apply:
 - effectiveness of coordination and cooperation with other Government contractors
 - acquisition, retention, and effective use of resources, including subcontractors
 - effectiveness of integrated design and construction resources
 - effectiveness of key personnel

- ✓ Strengths:

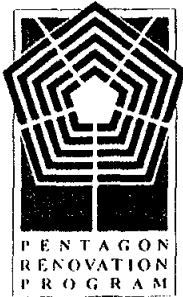
- ✓ Areas for Improvement:

- ✓ Subfactor Rating: _____



Design and Construction Performance Project and Program Controls/Government Insight

- ✓ The following criteria apply:
- establishment of effective project and program controls, including metrics
 - effectiveness in reducing variances from planned events
 - processes established to appropriately involve the Government in design and management decision making process
 - Timely notification of design changes
 - keeping the Government apprised of current cost and schedule status
 - management effectiveness in maintaining approved schedule
 - efforts and success in achieving early completion of milestones
 - effectiveness of communication with Government representatives
 - effectiveness in coordinating with other Government contractors



Design and Construction Performance Project and Program Controls/Government Insight

(Continued)

- ✓ Strengths:

- ✓ Areas for Improvement:

- ✓ Subfactor Rating: _____



Design and Construction Performance Customer Relations

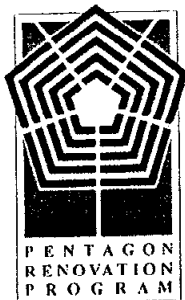
✓ The following criteria apply:

- cooperation and proactive involvement in problem mitigation/solving
- timely response to Government requests
- continuing efforts to maximize efficiencies and contract budget

✓ Strengths:

✓ Areas for Improvement:

✓ Subfactor Rating: _____



Design and Construction Performance Summary Ratings

✓ Sub-factor Categories:

- Quality of Work: _____
- Change Management and Cost Control: _____
- Resource Management: _____
- Project and Program Controls/Government Insight: _____
- Customer Relations: _____

✓ Overall rating for this factor: _____



System Commissioning

✓ The following will be evaluated:

- effectiveness in coordination and execution of, and adherence to commissioning plan through all phases of the project
- timeliness, quality and thoroughness of SOMMS, O&M manuals and training
- timeliness and quality (includes accuracy and format) of monthly as-built drawings updates and other submittals required by the commissioning process

✓ Strengths:

✓ Areas for Improvement:

✓ Overall rating for this factor: _____



Summary

✓ Ratings Summary

- Design and Construction Performance: _____
 - Quality of Work: _____
 - Change Management and Cost Control: _____
 - Resource Management: _____
 - Project and Program Controls/Government Insight: _____
 - Customer Relations: _____
- System Commissioning and Building Acceptance: _____

ANNEX D
CONFIDENTIAL:
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CONTRACT PERFORMANCE EVALUATION

The following pages contain forms to help in assessing the performance of the construction contract described herein. The collected data will be used in determining an overall performance rating for the contract performance period specified. Due to the sensitive nature of the information you are being asked to provide, please treat this document with the same protection(s) you would normally afford to other confidential material. Keep this cover sheet attached.

NOTE: Your rating(s) should be assessed in an unbiased, impartial and objective manner. The ratings are to be assigned only as they reflect performance relative to the requirements of this contract. Do not evaluate the success or failure of performance of the requirements on this contract with comparisons to performance evaluations on other contracts. Space is provided for an explanation of rating(s) less than satisfactory, or for suggestions of how to improve contract performance. Comments are not limited to less than satisfactory performance. Comments can and should also be included that note superior contract performance, or cite examples of expectations being exceeded.

PLEASE COMPLETE ONLY THOSE AREAS OF THE FORM RELEVANT TO YOUR PRIMARY ROLE IN THE MANAGEMENT OF THE SUBJECT PROJECT.

**PLEASE RETURN COMPLETED FORMS TO THE
CONSTRUCTION MANAGER AS SOON AS POSSIBLE.**

YOUR PARTICIPATION AND COOPERATION IS APPRECIATED!

CONFIDENTIAL INFORMATION FOR OFFICIAL GOVERNMENT USE ONLY

CONTRACT: MDA947-00-C-0010		CONTRACT TYPE: DESIGN/BUILD – AWARD FEE			
PROGRAM: METRO ENTRANCE FACILITY		EVALUATOR:			
CONTRACTOR: HENSEL PHELPS		EVALUATION PERIOD:			
E - Excellent V- Very Good G – Good P – Poor/Inadequate		P	G	VG	E
Factor 1 – Design and Construction Performance. The following subfactors are of equal importance:					
a. Quality of Work – the following criteria apply:					
• effectiveness of contractor, consultant and subcontractor Quality Control programs					
• plan to control quality					
• applying quality to design AND construction					
• are responsibilities clear?					
• Is plan proactive or reactive?					
• conduct and coordination of Contractor Quality Control inspections					
• ensure that inspections are done at proper point in process					
• early resolution of problems and disagreements					
• what actions are taken when nonconforming					
• how quickly action is taken when nonconforming					
• coordination with owner's QA and other agents					
• responsiveness to Government concerns regarding quality issues					
• maintaining a tracking system of government concerns					
• notification of correction or response					
• overall quality of work performed					
• protection of work in place					
• safety performance and management commitment to safety requirements					
• adequacy of safety program					
• maintaining satisfactory 'rates'					
• performance of safety personnel and superintendents					
• management commitment to security requirements					
• badging performance					
• prevention of security issues					
• response time to security issues					
• management commitment to energy sustainable design					
• documentation of sustainable design initiatives					
• measurement of design against LEED standards					
b. Change Management and Cost Control – the following criteria apply:					
• early identification and resolution of design and/or construction problems, avoiding modifications					
• identify and track issues					
• timely resolution of issues					
• participation and initiative in resolving issues					
• timely submission and equitable pricing of requested proposals for changed work, when necessary					
• measurement against a time standard					
• efforts and success in mitigating costs for changed conditions					
• timely problem analysis and identification of options					
• timely implementation to avoid cost impacts					
• effectiveness in management of consultant and subcontractor proposals					
• review accuracy of subcontractor's proposal					

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CONTRACTOR: HENSEL PHELPS		EVALUATION PERIOD:			
E - Excellent V- Very Good G – Good P – Poor/Inadequate		P	G	VG	E
• ensure timely submission of subcontractor's proposals					
• minimization and timely resolution of claims or requests for equitable adjustment					
• no minor (cost), frivolous, or spurious claims					
• early identification of potential claims (informal acknowledgement)					
• effectiveness in management of the Request for Information process					
• minimization of frivolous submissions					
• adequacy of contract document review prior to submission of clarification requests					
• proposal of recommended solutions					
• effectiveness in phasing the work for most efficient use of work crews and resources					
c. Resource Management – the following criteria apply:					
• effectiveness of coordination and cooperation with other Government contractors					
• initiative in including OGCs in meetings, etc.					
• allowance in schedule for OGCs					
• early identification of critical interfaces, issues or slowdowns					
• acquisition, retention, and effective use of resources, including subcontractors					
• timely subcontracting					
• effective remedial action for poorly performing subcontractors					
• timely mobilization and staffing changes					
• effectiveness of integrated design and construction resources					
• seamless continuity between design and construction					
• not used as an excuse					
• effectiveness of key personnel					
• attentiveness to government issues					
• timely responses to issues					
• availability to owner, subcontractor, others					
d. Project and Program Controls/Government Insight – the following criteria apply:					
• establishment of effective project and program controls, including metrics					
• effectiveness in reducing variances from planned events					
• processes established to appropriately involve the Government in design and management decision making process					
• Timely notification of design changes					
• keeping the Government apprised of current cost and schedule status					
• management effectiveness in maintaining approved schedule					
• efforts and success in achieving early completion of milestones					
• effectiveness of communication with Government representatives					
• effectiveness in coordinating with other Government contractors					
e. Customer Relations – the following criteria apply:					
• cooperation and proactive involvement in problem mitigation/solving					
• timely response to Government requests					
• continuing efforts to maximize efficiencies and contract budget					

CONFIDENTIAL INFORMATION FOR OFFICIAL GOVERNMENT USE ONLY

CONTRACT: MDA947-00-C-0010		CONTRACT TYPE: DESIGN/BUILD – AWARD FEE			
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CONTRACTOR: HENSEL PHELPS		EVALUATION PERIOD:			
E - Excellent V- Very Good G – Good P – Poor/Inadequate		P	G	VG	E
Factor 2 – System Commissioning					
• effectiveness in coordination and execution of, and adherence to commissioning plan through all phases of the project					
• timeliness, quality and thoroughness of SOMMS, O&M manuals and training					
• timeliness and quality (includes accuracy and format) of monthly as-built drawings updates and other submittals required by the commissioning process					
Factor 3 – Socioeconomic Programs Compliance					
• Contractor's good faith efforts and success rate in meeting and exceeding the subcontracting goals included in the approved subcontracting plan.					
• The Contractor may earn award fee even if the goals are not met, provided that a positive program of socioeconomic program compliance is accomplished in good faith					
• timely compliance with contractual reporting requirements					
• timely and accurate submission of semi-annual reporting documentation					
• efforts and results in transfer of QC/QA technology to small, small disadvantaged and women owned small businesses					
• outreach efforts to attract qualified small, small disadvantaged or women owned subcontractors to the project					
• mentoring activities for small, small disadvantaged, or women owned subcontractors working on the project					
Factor 4 – Project Closeout					
• effectiveness in phasing the work for most efficient use of work crews and resources					
• minimization and timely resolution of punch list items					
Factor 5 – Post-Construction/Warranty					
• timely response to warranty calls					
• quality of repairs					
• effectiveness of communication with Government and Washington Metropolitan Area Transit Authority (WMATA) representatives					
• cooperation and proactive involvement in problem mitigation/solving					
• effectiveness in coordination and execution of seasonal and other deferred functional performance testing					
OVERALL PERFORMANCE EVALUATION RATING THIS PERIOD:					
Explanation of less than satisfactory rating(s) above or suggestions to improve performance rating(s) in future evaluation periods:					

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Explanation of less than satisfactory rating(s) above or suggestions to improve performance rating(s) in future evaluation periods:	
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CONTRACTOR: HENSEL PHELPS				EVALUATION PERIOD:						
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Additional comments:										